United Nations A/58/714

General Assembly

Distr.: General
17 February 2004

Original: English

Fifty-eighth session
Agenda item 129
Joint Inspection Unit

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Note by the Joint Inspection Unit to clarify further some of the recommendations contained in its report on support costs related to extrabudgetary activities in organizations of the United Nations system, in response to General Assembly decision 58/560

I. Introduction

1. The present note is submitted in response to General Assembly decision 58/560, in which the Assembly requested the Joint Inspection Unit to provide further clarification of its recommendations 1, 4, 6, 8 and 9, contained in its report on support costs related to extrabudgetary activities in organizations of the United Nations system (A/57/442).

II. Further clarification

Recommendation 1

With a view to ensuring the effective use of extrabudgetary resources in support of mandated programmes, legislative organs may wish to request the executive heads of each organization to:

(a) **Integrate extrabudgetary resources with core resources in budget presentations (as far as they have not already done so) and subject these resources, at least in terms of broad programmatic prioritization, to legislative approval;**

(b) **Accept extrabudgetary resources for activities beyond the reach of core budgets in line with the broad programmatic prioritization approved by legislative organs.**

2. The main intent of recommendation 1 is to ensure that extrabudgetary resources, utilization of which has been increasing in many organizations of the system, are harnessed effectively in support of the approved programmatic priorities

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and activities of the recipient organization. Recommendation 1 (a) aims to ensure this by promoting greater transparency in the presentation of programme budgets, thereby encouraging improved resource allocation.

3. In the case of the United Nations, since the biennium 1974-1975, proposed programme budget presentations have integrated extrabudgetary resources with regular budget resources. The Advisory Committee on Administrative and Budgetary Questions has been guiding and overseeing various aspects of the presentation of extrabudgetary resources in the proposed programme budgets. The Advisory Committee recommended that the General Assembly endorse the recommendations of the Joint Inspection Unit (A/57/434, para. 6).

4. Recommendation 1 (b) complements recommendation 1 (a). It aims to avoid any possible distortion in pursuing the approved programme priorities or further burdening of the regular or core resources by additional administrative and other support expenditures incurred as a result of extrabudgetary funding to programmes or activities not in line with the programme priorities. In the case of the Organization, United Nations Financial Regulation 7.2 stipulates the conditions under which the Secretary-General may accept voluntary contributions (A/57/442, para. 17).

Recommendation 4

Legislative organs may wish to consider permitting United Nations system organizations to retain the interest earned on extrabudgetary resources contributed to multi-donor activities where resources are commingled and separate donor-specific accounting is not possible. They may wish to determine that this income should be used to reduce extrabudgetary support costs and that appropriate reporting is made to legislative organs on the relationship between such interest income and support-cost rates.

5. The recommendation, which is acceptable to the members of the United Nations System Chief Executives Board for Coordination (A/57/442/Add.1, para. 11), is based on a practice accepted by the Executive Board of the United Nations Children's Fund (UNICEF) in 1998 (A/57/442, paras. 35 and 36). It calls on legislative organs to consider allowing the United Nations system organizations, under restrictive conditions clearly indicated in the recommendation, to retain the interest earned on those resources and use it to offset a portion of the support costs. This could reduce extrabudgetary support costs and eliminate the administrative burden entailed in calculating, crediting, reporting, returning or otherwise determining the distribution of extrabudgetary interest income. In 1998, interest earned by supplementary resources provided UNICEF with support costs equivalent to an additional rate of recovery of approximately 4 per cent. In the case of the United Nations and other organizations, the issue needs to be further studied and reported on to the legislative organs for consideration, as recommended by the Joint Inspection Unit.

Recommendation 6

Executive heads of the organizations which have not yet done so should explore the possibility of including, as direct and internal project or programme costs, identifiable elements presently covered by percentage-based support-cost charges.

6. The recommendation, as enunciated, calls on the executive heads to explore the possibility of systematically identifying and recovering a larger proportion of the support costs attributed to extrabudgetary activities as direct and internal project or programme costs. In this context, the concern expressed by some members of the Chief Executives Board that such a practice might eventually lead to an overall lowering of the programme support-cost rate (A/57/442/Add.1, para. 13) should be recognized. This concern should be weighed against the potential benefits that could result from improvement in the donors' perception of the transparency and justification of support-cost charges in general, and the legitimacy and reasonableness of the applied indirect support-cost rates in particular (A/57/442, paras. 20, 24 and 50).

7. The second concern, expressed by some members of the Chief Executives Board (A/57/442/Add.1, para. 13), that the flexibility in allocating support-cost elements between the fixed or percentage-based category and the direct and internal project or programme-cost category might lead unnecessarily to negotiations with donors, is overstated in the view of the Joint Inspection Unit; the recommendation, as clarified and mentioned in the report (A/57/442, para. 24), calls for systematic identification of the elements to be charged as direct and internal project or programme costs.

Recommendation 8

Executive heads should ensure that exceptional support-cost rates, and the grounds on which they are permitted, are consistent. They should only be granted on the basis of justifiable substantive priorities or a genuine determination that lower support-cost rates are appropriate. Furthermore, executive heads granting exceptional support-cost rates on a relatively frequent basis should revise the extrabudgetary support-cost policies to which they are approving exceptions.

8. The recommendation acknowledges the authority given to the secretariats of the United Nations system organizations to grant exceptional support-cost rates (A/57/442, para. 48). It aims, however, to ensure transparency and consistency in the conditions under which such exceptional rates are granted. This should avoid, inter alia, granting exceptional rates mainly at the demand of certain donors (A/57/442, para. 49) and should ensure predictable and equitable treatment for Member States and other donors.

9. The recommendation, as stressed, is addressed to the executive heads. As it has been accepted by the members of the Chief Executives Board (A/57/442/Add.1, para. 15), executive heads are expected to adhere to and implement it without any need for specific action on the part of legislative bodies, including the General Assembly.

Recommendation 9

Legislative organs should enact support cost policies to ensure that extrabudgetary resources continue to be mobilized and deployed effectively to further the mandated activities in developmental, humanitarian and other substantive areas. These policies should be straightforward, transparent, easy to administer and must provide for a consistent and equitable approach to special arrangements. To this end, legislative organs may wish to consider that:

(a) Extrabudgetary support-cost rates should be established in accordance with the following principles:

- **They should recognize and reflect the relative centrality, and direct benefits, of an extrabudgetary activity to the mandated programme;**
- **They should be differentiated to take into account the cost of support as influenced by type of activity, conditionality and the volume of resources;**

(b) The authority to establish extrabudgetary support-cost rates in accordance with the principles in (a) above may be delegated to executive heads, with appropriate reporting thereon to legislative organs.

10. Recommendation 9 calls for a harmonization of the policy principles upon which support-cost rates are established in United Nations system organizations. As mentioned in the report (A/57/442, para. 60), the development of a common approach to the establishment of these rates will, inter alia, improve the understanding and acceptance of support-cost policies of United Nations system organizations by Member States. To contribute to this harmonization process, recommendation 9 (a) proposes a number of principles, on which extrabudgetary support-cost rates should be based. The members of the Chief Executives Board accepted those principles (A/57/442/Add.1, para. 15), as well as recommendation 11 emphasizing the role of the Board, through an appropriate mechanism, to monitor, report and review the policy-making processes across the organizations of the system on the management of extrabudgetary resources.

11. Recommendation 9 (b) suggests that the legislative organs may consider the possibility of granting executive heads the authority to establish extrabudgetary support-cost rates. The reasons and conditions for granting this authority are highlighted in the report of the Joint Inspection Unit (A/57/442, paras. 63 and 65). It is stressed, among other things, that such authority could be granted within certain policy and reporting parameters to be set by the legislative organs, as is the case with the authority granted to executive heads to accept extrabudgetary contributions and to approve exceptional support-cost rates. Recommendation 9 (b) should be considered, in particular, in the context of the principles proposed in part (a) of the recommendation, also bearing in mind other relevant recommendations in the report, including recommendations 1, 8, 10 and 12.